

TENNESSEE HOUSING DEVELOPMENT AGENCY
BOARD OF DIRECTORS
September 19, 2002

Pursuant to the call of the Chairman, the Tennessee Housing Development Agency Board of Directors met on Thursday, September 19, 2002, at 1:00 P.M. in White Pine, Tennessee.

The following members were present: Janice Cunningham for Steve Adams, Susan Brown, Bill Bruce, Gerald Reed for Riley Darnell, Leigh Ferguson, David Hayes, Harold Hunter, John Kalec, Bill Long, Mary Margaret Collier for John Morgan, Peter Abernathy for Warren Neel, Ralph Perrey, Jeff Reynolds, Larry Rogers, and Jerry Sisson.

The following members were absent: Jay Ballard, Carolyn Flagg, Ronnie Knight, and Calestine Williams.

Chairman Hayes opened the meeting for public comment and there was none.

Chairman Hayes introduced Mr. Michael Toth of Salomon Smith Barney noting that Mr. Toth is a friend to the affordable housing industry and the Agency. Mr. Toth addressed the group and shared information on upcoming issues in the housing industry in relation to the economy. Members were provided a Market Update and Mr. Toth summarized its content. He said that the present economy is dramatically affecting the way housing agencies do business, although the housing industry has adjusted to the market better than some other industries. Mr. Toth acknowledged that the Agency has invested much time and effort in establishing its single family program, thus developing strong relationships with its lenders and borrowers. The Agency's product fills the need for low-income families who could not otherwise purchase a home, and the Agency should be mindful of maintaining a constant presence in the market. Today's environment will not return the profits that have been appreciated in the past; however, Mr. Toth urges the Agency to always offer alternatives to borrowers. Mr. Toth answered several questions on specific financial issues faced by the Agency.

Chairman Hayes called for a motion to approve the minutes of the previous meeting. With a motion to approve from Mr. Reynolds, and a second from Ms. Brown, the minutes of the July 25, 2002, meeting were approved as presented.

Janice Myrick, Executive Director, reviewed the Monthly Report with the Board noting that much of the report is updated program information and is provided to the Board each month. Mortgage program statistics are included in the Agency's quarterly financial disclosure and can be shared with the Board if desired. Ms. Myrick called attention to the New Start (0%) Program statistics indicating that Agency staff will most likely request Board approval to extend the December 31, 2002, program deadline, and allocate additional dollars to the program. Board members also received FY2001-02 Mortgage Program Statistics in their packets. These statistics are also provided to the Board at calendar year end.

Ms. Myrick summarized the Mortgage Resources and Production update. Ms. Myrick noted that the \$100 million mid-year volume cap allocation is reflected in this material. The Agency is limited in its production projections based upon the \$75 million annual volume cap allocation in 2003. Ms. Myrick also shared the Agency's recommendation that the uninsured loans current loss reserve of \$232,000 remain unchanged.

Ms. Myrick reviewed the Monthly Report with the Board noting that much of the report is updated program information and is provided to the Board each month. Mortgage program statistics are included in the Agency's quarterly financial disclosure and can be shared with the Board if desired. Ms. Myrick called attention to the New Start (0%) Program statistics indicating that Agency staff will most likely request Board approval to extend the December 31, 2002, program deadline, and allocate additional dollars to the program. Board members also received FY2001-02 Mortgage Program Statistics in their packets. These statistics are also provided to the Board at calendar year end. Agency staff continue to communicate with non-served and under-served counties to generate production.

The next item was the Audit & Budget Committee's recommended approval of the FY03-04 Agency Budget. Chairman Hayes called for a motion to approve. Mr. Rogers moved to approve, and Mr. Long seconded the motion. The motion carried, with Mr. Abernathy abstaining. Chairman Hayes shared that the Audit & Budget Committee recommended including \$4 million in the FY03-04 Budget for the purchase and/or building of an office building for the Agency. Following discussion with members of the Bond Finance Committee, the Board tabled the item until its November meeting. The Agency will submit its requested budget, noting that there is the possibility of an amended budget request following the November meeting. A formal request will be made to delay the Agency's budget hearing.

Chairman Hayes advised that the Audit & Budget Committee recommended approval of the report on Board and staff disclosures. There were no objections to the report; therefore, it will be incorporated in these minutes. The Internal Audit Recap and Plan for FY2003 were a part of the Board packet and there were no questions or comments posed by the Board on these items.

The next item was the Bond Finance Committee's recommendation to authorize changes to the Morgan Keegan note program as described by CSG Advisors. Ms. Lynn Miller, General Counsel, advised that the Bond Finance Committee adopted the Plan of Financing for Series 2002CN-1 and recommended the transaction described in the CSG Advisors documents for the Board's consideration. The Committee recommended that the Board adopt the accompanying Resolution allowing the continuance of the Morgan Keegan note program and authorize Series 2002CN-1, the final terms and conditions of which will be determined by the Bond Finance Committee. Chairman Hayes asked for a motion to approve. Mr. Reed moved to approve and Mr. Ferguson seconded. The recommended action was approved with Ms. Cunningham casting a No vote.

Jerry Sisson, Chairman of the Policy & Programs Committee, shared its recommendations to the Board. The Committee recommends an amendment to the 2002 Tax-Exempt Multi-Family Bond Authority Program that would extend the application deadline until October 15, 2002, and remove the \$10 million per developer cap for applications submitted

on or after October 1, 2002. The applicants would have until October 31, 2002, to provide evidence of a satisfactory Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) Hearing. Chairman Sisson moved approval of the recommendation and Mr. Perrey seconded. Mr. Bruce recused himself from the matter and abstained from the vote. The motion carried.

Upon recommendation of the Policy & Programs Committee, Mr. Sisson moved to adopt the Section 8 Homeownership Voucher Program on a permanent basis. Mr. Bruce seconded the motion and the motion passed unanimously.

Mr. Sisson advised that the Committee received reports on the Regional Housing Summits and the Homebuyer Education Initiative. The Committee also heard Discussion Points on the LIHTC 2003 QAP.

Chairman Hayes gave Ms. Myrick the opportunity to bring a non-agenda item to the Board. As Executive Director, the Board has entrusted Ms. Myrick to set Agency mortgage rates. The Agency strives to hold its mortgage loan rates within 1 point of the market, and in mid-August lowered its rates to 5.625% (Great Rate) and 6.625% (Great Start). Ms. Myrick shared that due to Agency mortgage loan requirements, the Agency must remain below the market to stay competitive. Earlier this week, Mr. Bob Detjen, CSG Advisors, informed the Agency that there is movement in the market; however, the Agency mortgage rate would have to be dropped substantially (5.3%) to make a difference.

With input from senior staff, Ms. Myrick made the decision to continue the rates as reduced in August, rather than reduce them again at this time. A further reduction in the rate requires use of additional Agency resources such as 0% mortgage funds. Also, the Agency is working to reduce the amount of negative arbitrage caused by holding mortgage proceeds. In discussions with members of the Bond Finance Committee, Jerry Sisson, Policy & Programs Committee Chairman, and Chairman Hayes, the possibility of reducing the point spread between Great Rate and Great Start was brought up. Current policy prescribes a 1 point spread. Discussions also developed regarding the possibility of raising the rate of downpayment assistance from 3% to 4%. Because the mortgage interest rate spread between Great Rate and Great Start is set by policy, Ms. Myrick requested the Board's action on this issue. Chairman Hayes opened the table for motion. Jerry Sisson entered the motion to give discretionary authority to the Executive Director to reduce the difference in the spread between Great Rate and Great Start, and to raise the subsidy grant fund from 3% to 4%. Bill Bruce seconded the motion. The motion passed, with Mr. Reed voting No. Mr. Reynolds asked that the Agency widely communicate any changes in these mortgage interest rates.

Chairman Hayes opened a discussion regarding Agency communications/press releases, a non-agenda item. Mr. Hayes, along with Mr. Perrey, expressed support of the Agency's publicity endeavors and suggested that the monthly Board material include information about participation by senior staff in conferences, conventions, public forums, etc. Chairman Hayes recognized Toni Harris, Chief of Communications, for her excellent work this past year, adding that her presence and contact with members of the General Assembly has served the Agency well. Mr. Hayes and Mr. Perrey encouraged the Agency to be more proactive in publicizing its programs by means of photo opportunities with elected officials and regularly informing them of success stories in their individual districts. Ms. Myrick agreed that positive communications

with elected officials is vital to the Agency and its programs. Staff will report publicity activities to the Board each month.

Ms. Susan Brown, Chairman, brought Grants Committee items to the table. The Committee recommends adjusting the grant cycle so that feedback from the last Regional Housing Summit in mid-November can be incorporated into the 2003 HOME Program. Program issues will be discussed at subsequent meetings. Ms. Brown moved to approve the adjustment of the grant cycle by 2 months. Mr. Hunter seconded the motion. The motion passed unanimously.

Ms. Brown advised that the Grants Committee discussed the Mt. Pleasant agenda item in detail earlier in the day. The Committee recommends an exception and amendment as outlined in the September 10, 2002, memorandum included in the Board packet. Ms. Brown entered a motion to approve. Mr. Ferguson seconded the motion, and the motion carried unanimously.

Ms. Myrick updated the Board on the progress made in the trustee transition. The Bond Finance Committee and staff worked quickly but effectively to select the new trustee, Wachovia Bank, and the Agency is on target for the October 2 transition deadline. Ms. Myrick said staff are excited about having a local trustee and thanked the Board for allowing staff the opportunity to work quickly and provide them with updates via email.

Ms. Myrick apprised that to fulfil federal legislative requirements, the Agency revised its Section 8 Administrative Plan, which has now been approved by HUD. The legislation requires housing agencies with rental assistance programs to have a Section 8 rental assistance tenant representative on their Board. Names of Section 8 tenants elected by the Section 8 Resident Advisory Board were submitted to Governor Sundquist for confirmation of an appointee. Ms. Miller explained the appointment process and added that the Agency is also required to have a resident advisory board, in addition to a Section 8 Board member. She asked that members contact her if interested in copies of documents created during this process. Following considerable discussion and articulation of concerns, Chairman Hayes summarized the discussion, noting that certain members will speak directly with constitutional officers, and Speaker Naifeh and Lieutenant Governor Wilder to apprise them of this federal requirement.

Regarding federal issues, Chairman Hayes shared that the Senate is expected to vote on the 10-year rule today, and will hopefully repeal it. It is being attached to the small business administration tax bill as an amendment. Ms. Myrick informed attendees that the Housing Affordability for America Act Trust Fund is still vital, but status is unknown.

There was no new information to share regarding the Agency's upcoming 30th Year Anniversary.

Chairman Hayes reported on his attendance at the NCSHB Workshop held in August. The number of states participating was higher than ever with several state housing agencies taking part for the first time. Mr. Hayes said that involvement of NCSHB and NCSHA membership was certainly instrumental in gaining support for the repeal of the 10-year rule. Mr. Reynolds also attended the workshop and recognized Mr. Hayes for such a successful term of service as President. Mr. Reynolds thanked him for representing our state so well and for his

efforts in making a more viable organization by involvement in congressional and national housing issues.

Chairman Hayes reminded members of the following day's scheduled meeting with legislators. Legislators expected to attend are Senators Mike Williams, Tim Burchett and Steve Southerland (newly elected), and Representative Ronnie Davis.

Mr. Reed took the opportunity to extend thanks to Chairman and Mrs. Hayes for their hospitality, and the membership and staff offered a round of applause in response. Chairman Hayes reminded everyone that Union Planters Bank sponsored the previous night's reception.

With no further business to come before the Board, the meeting adjourned.

Respectfully submitted,

Janice L. Myrick
Executive Director

SEAL